No. 15714

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

TALON, INC.,

Plaintiff-Cross-Appellee,

vs.

UNION SLIDE FASTENER, INC.,

Defendant-Cross-Appellant.

BRIEF ON BEHALF OF PLAINTIFF-CROSS-APPELLEE.

LYON & LYON,
LEONARD S. LYON,
CHARLES G. LYON,
811 West Seventh Street,
Los Angeles 17, California,

McCOY, GREENE & TEGROTENHUIS,
WILLIAM C. McCOY,
WILLIAM C. McCOY, JR.,
524 Bulkley Building,
Cleveland 15, Ohio,

Attorneys for Plaintiff-Cross-Appellee.

Parker & Son, Inc., Law Printers, Los Angeles. Phone MA. 6-9171.

TOPICAL INDEX

TABLE OF AUTHORITIES CITED

No. 15714

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

Talon, Inc.,

Plaintiff-Cross-Appellee,

vs.

Union Slide Fastener, Inc.,

Defendant-Cross-Appellant.

BRIEF ON BEHALF OF PLAINTIFF-CROSS-APPELLEE.

The statement of the case as presented in the brief of cross-appellant Union is not adequate for the purposes of this review.

The statement of the facts is misleading in many respects and incorrect in others. The specification of error does not correlate with the opinion and findings of the District Court and does not set out the real question before this court.

Action Below.

The District Court dismissed Union's counterclaim for failure to prove injury to its business or property arising out of the actions complained of.* [Conclusion XVII, R.

---

*Talon does not concede in this case that it has misused its patents or been guilty of a violation of the antitrust laws. Its position in this regard is set forth in Talon's Opening Brief, pages 12 to 20 and 61-74. Talon will, however, in this Reply Brief not again present that material but will show that the District Court was right in dismissing the counterclaim even assuming that Talon had violated the antitrust laws.

192.] The evidence was not sufficient to establish the fact of damage to Union resulting from the actions of Talon.

On June 7, 1957, Union filed a motion for a new trial. [R. 1616.] In the first paragraph of the brief in support of its motion, Union accurately reviewed the facts and stated:

> "On the last day of the trial of this case, March 15, 1955, defendant, in support of its Counterclaim, was permitted to offer some proof on the subject of attorneys' fees and expenses incurred in the action, *to show damage resulting to defendant from plaintiff's violations of the anti-trust laws.* Defendant was also given the opportunity to present some evidence of the hardship and expense caused by the suit. But when defendant offered evidence tending to show a loss of profits an objection by plaintiff was sustained." (Emphasis ours.) [R. 1616.]

The District Court rightfully denied the motion, Union having had its day in court [R. 1653].

The significant point is that by its own admission, Union had full opportunity before the District Court to show damage resulting to it from the actions of Talon. The statements and implications to the contrary in Union's brief are incorrect and without foundation in the record.

Question on Appeal.

It is thus apparent that the only question on appeal is whether the District Court erred in finding that there was no proof of injury to the business and property of Union arising out of the actions complained of.

Union's third specification of error set out at page 11 of its brief is not a question on appeal and is inaccurate and misleading. By Union's own admission, the District Court did give Union an opportunity to introduce or proffer all evidence that it had showing the fact of damage to Union because of Talon's actions. The evidence which was excluded went to the failure of Union to make an assumed profit on its invested capital and went to the amount of damage. This evidence was rightfully excluded as being based upon speculation and conjecture and being irrelevant and immaterial because the fact of damage resulting from acts of Talon had not been established.

There was no failure on the part of the District Court to admit evidence to show damage to Union flowing from Talon's actions.

Statement of Relevant Facts.

The controlling finding is that there was no causal connection between Talon's actions and damage to Union. There is nothing in Union's statement of the facts tending to show that this finding is clearly erroneous.

The District Court found that Talon had unclean hands on the basis of the "quota license agreements" when coupled with an intent and attempt to monopolize in violation of section 2 of the Sherman Act. As evidence of the intent to monopolize, the court relied on the American Agreement [Ex. AH] and the Los Angeles Conference. The facts upon which the District Court based the antitrust aspects of its opinion are fully set forth on pages 12-20 of "Appellant's Opening Brief" (green brief) on file herein.

Union was not a party to a quota license agreement with Talon. The American Agreement [Ex. AH] was executed in 1934 and Union had no conceivable connection with it. The Los Angeles conference is the only piece of evidence which has any connection with Union, Union's representative, Lipson, having been present.

The only possible damage to Union resulting from this conference would be introduction of the "Wilzip" zipper to the West Coast. The Korean War started immediately afterward and precipitated a zipper shortage so that introduction of this zipper had no influence on the market and did not damage Union. As to the effect of the introduction of this zipper, Union's own witness Lipson, testified as follows [R. 917]:

> "Q. Was Wilzip introduced in Southern California? A. Yes, it was.
>
> Q. Do you know about when it was introduced, from your knowledge? A. I don't remember the exact date. And whether it was introduced on a broad scale or not, I couldn't say, because a few months after that the Korean police action or whatever you want to call it started, and it eliminated any possibility of chiseling, because of the fact that every customer was wanting to buy 50 times the amount of zippers that he was buying, and then when everyone placed orders that were 1000 times the capacity of any manufacturer to produce there would be no reason for chiseling.
>
> Q. Did Wilzip appear on the market after the Korean business? A. No, Wilzip disappeared, to the best of my knowledge, suddenly disappeared from the market when the Korean war broke out." [R. 917.]

While the Wilzip zipper was admittedly an inexpensive zipper, there is absolutely nothing in the record to indicate that it or any other Talon zipper was sold at less than cost.

Nature and History of Union's Business.

The only other facts bearing on the question before the court concern the nature and history of Union's business. When Lipson became associated with Loew on June 19, 1947 [R. 710], Loew was licensed under the Loew zipper machine patent, Exhibit O [R. 1877], by his former employer, Universal Button Company of Canada, to operate 20 machines [R. 897-899]. Lipson testified:

> "The Court: So that Universal Button owned the patent?
>
> The Witness: That is correct.
>
> The Court: And Loew had a license to operate 20 machines? (832)
>
> The Witness: Yes, 20 machines under this patent." [R. 899.]
>
> * * * * * * * *
>
> "That license was later on shared by Mr. Loew and myself and assigned to Union Slide Fastener Company—the right to use that license." [R. 897.]

Lipson believed that the Union machines came under that patent:

> "Q. (By Mr. Leonard Lyon): In your opinion, was that machine built in accordance with the Loew patent, Exhibit O, a copy of which you have in your hand? A. From the observation of that machine that I have seen, it was." [R. 941.]

Thus Union had the right to operate 20 machines, but no right to sell machines.

When Lipson first went with Loew on June 19, 1947 [R. 710], the Union machines had many defects "contrary to accepted principles in the mechanical field." [R. 712.] Obviously the machines sold in Mexico and Canada in 1948 [R. 930], and offered for sale in Europe in May and June of 1948 [R. 1376] did not have the mechanical improvements first used by Lipson in 1949 [R. 956-957] and were, on the whole, unsatisfactory. This alone could explain why Union's business in its sales of machines was insignificant.

Union's business of selling zippers and zipper chain was much more important, but no patent in suit related to zippers or zipper chain.

Union never alleged or attempted to prove any interference by Talon in its sale of either machines or zippers because there was no such interference.

Another factor influencing Union's business which should be noted is the fact that Union had two fires of undetermined origin, one October 2, 1949, and the other February 15, 1949 [R. 954-955], and suffered because of the delay of the insurance company in compensating it for the losses.

Finally, there is the RFC loan in the amount of $28,-440 which was cancelled February 12, 1953 [R. 1633]. This loan was cancelled because, quoting from the letter from the RFC administrator to Lipson's congressman, Norris Paulson, written one day after cancellation:

> "An analysis of a recently completed audit reveals that the statement submitted by this company with its loan application was inaccurate and did not reflect the true financial condition." [R. 1634.]

Talon had no conceivable connection with any of these matters.

Union's Statement of Facts.

Most of Union's statement of the facts is beside the point and serves only the obvious purpose of smearing Talon. Nevertheless, the more flagrant misstatements should be corrected.

Starting at page 3 of Union's brief, Points 1 through 4 find no support in the findings noticed or in the record. Point 1, finding XXXXIII [R. 186] in nowise supports the point as a simple reading of the finding will demonstrate. The finding was:

> "Plaintiff's conduct is convincing that it considered the validity of Poux '017 and Silberman '793 as being questionable and had not heretofore permitted their adjudication."

The statement that Talon purchased patents irrespective of merit finds no support in the record. To the contrary, the record shows that Silberman '793 had great merit, Imperial Chemical Industries having paid $600,000 for the European rights [R. 463, Ex. 9; see p. 37 of Talon's main brief].

Talon's purchase of Poux '017 was a natural act since Poux was a former employee of Talon, he lived in Talon's home town, and later worked for Talon for many years.

With respect to points 2 and 3, Talon has acted throughout in good faith and has rightfully assumed that its patents were valid. Its position was reinforced as late as 1938 by this very Court of Appeals when it affirmed a finding that Sundback patent 1,557,381 was valid (98 F. 2d 1020). Admittedly, Talon settled litigation by license agreements under a variety of circumstances and for a variety of reasons. Nothing in the record indicates that the license agreements were "bogus" or the result of "baseless litigation upon worthless patents." Since a patent is presumed valid, it takes more than a few snide inferences to establish that the patent owner considered it worthless. As stated on page 4 of Union's brief, Talon's biggest competitor was Conmar. It licensed Talon on its high speed machine and particularly under its machine patent 2,201,068 [R. 1842] and its square shouldered zipper patent 2,221,740 [R. 1714] after each of these patents had been held valid and infringed [R. 1026; Exs. 12 and 16]. Thus Conmar must have regarded Talon's patents as having real merit or it would not have licensed Talon under its important high speed machine patents that had been litigated and found valid. Certainly Conmar was in position to contest the validity of Talon's patents.

The statement on page 5 of Union's brief that Talon had 60 per cent of the zipper business in 1945 is not correct. Meech testified:

> "The Court: * * * What percentage of the market did Talon have in 1940, at the time of the execution of the agreement 11? Do you have the figures for 1939 and '40?
>
> The Witness: No, I do not, your Honor. At that time Talon controlled—that is immediately prior to the war, around 60 per cent in opinion. During the war, of course, there were no fasteners for civilian consumption. It was all military. (479)
>
> * * * * * * * *
>
> After the war our percentage dropped materially and competition started to come into the picture to a greater degree." [R. 605.]

Finding XXIX was:

> "Subsequent to World War II, plaintiff's share of the market was down to about 30% of the market. * * *" [R. 183.]

With respect to point 4 and as already noted absolutely nothing supports the statement that Talon sold any zipper at less than cost. This is the grossest sort of misstatement. There is not even an allegation to this effect in Union's counterclaim.

The answer to the statements of alleged appropriation of information as a result of McKee's visit noted at page 9 of Union's brief is found at pages 56-63 of Talon's opening brief (green brief). Union realizes that the lower court's finding of appropriation by Talon of Union's improvements is contrary to the only evidence now in the record on this point and Union now alleges that "If given the opportunity" it could now prove these matters (Br. p. 9). The fact is that all of these improvements were made by Union after March 1949, one year *after* McKee's visit on April 15, 1948 [R. 1415, 956-957].

The statement at page 10 of Union's brief that the only inspection which Talon ever made of Union machines was the inspection by McKee is simply not true. Duplicate machines were owned by Loew, were offered for sale here and abroad and machines were sold in Canada and Mexico [R. 1376-1377].

The only purpose of this approach is to attempt to establish the point that Talon brought suit without reasonable justification. A quick glance at plates 1 and 2 of the Silberman machine and Union's machine, side by side, shows that they are identical and of itself refutes the statement (see folder at back of Talon's opening brief). McKee's visit is the only inspection of Union's machine noted in the record, which in nowise supports the conclusion that it was the only inspection made of Union's machine prior to bringing suit. Since the Union machines use the claimed invention of the patent in suit, it seems unimportant as to how Talon acquired its knowledge of the infringement. This is not a case of malicious prosecution.

Argument.

The trial court correctly found that there was no causal connection between Talon's actions and any damage to Union alleged in Union's counterclaim and dismissed the counterclaim. Union has not sustained the burden of showing that the finding of the trial court was erroneous and Union's appeal should be dismissed.

Union's brief confuses the rule of law relating to the proof required to show the *amount* of damage with the rule relating to the proof required to show the *fact* of damage. This court clearly pointed up the distinction in the recent case of *Flintkote Company v. Lysfjord* (C. A. 9, 1957), 246 F. 2d 368, as follows:

> "We take it that the controlling rule today in seeking damages for loss of profits in anti-trust cases is that the plaintiff is required to establish with reasonable probability the existence of some causal connection between defendant's wrongful act and some loss of anticipated revenue. Once that has been accomplished, the jury will be permitted to 'make a just and reasonable estimate of the damage based on relevant data, and render its verdict accordingly.' Bigelow v. RKO Radio Pictures, Inc., supra, 327 U. S. at page 264, 66 S. Ct. at page 580. The cases have drawn a distinction between the quantum of proof necessary to show the *fact* as distinguished from the *amount* of damage; the burden as to the former is the more stringent one. In other words, the *fact* of injury must first be shown before the jury is allowed to estimate the *amount* of damage." (P. 392.)

See:

Story Parchment Company v. Patterson Parchment Paper Co. (1930), 282 U. S. 555, 75 L. Ed. 544;

Chiplets, Inc. v. June Dairy Products Co. (D. C., D. N. J., 1953), 114 Fed. Supp. 129;

Ronson Patents Corp. v. Sparklets Devices (D. C., E. D. Mo., 1953), 112 Fed. Supp. 676.

The cases cited by Union are beside the point because they relate to the amount of damage and not to the fact of damage. Union's brief does not meet the issue. In this entire record Union complains of three activities of Talon which in some obscure fashion are alleged to have caused it damage.

The first of these activities is the granting by plaintiff to strangers to this record of quota licenses. It seems apparent, and was correctly found by the District Court, that a restrictive license granted to another (and a competitor of Union) could not adversely affect Union.

The second of these activities is the alleged appropriation by Talon of improvements stated to have been originated by Union. The answer to this is simply that all such improvements were incorporated into Union's machine subsequent to any access thereto by plaintiff (see pp. 56-61 of Talon's opening brief).

The last of these activities and the one upon which Union pins its hopes of establishing a connection between its losses and Talon's actions is the filing of the instant suit.

The patents owned by Talon are presumed to be valid, and Talon had a right under the patent laws to protect them against infringement. The institution of the suits for patent infringement may not be condemned as a violation of the antitrust laws in the absence of persuasive evidence that the suits were sham and brought for the purpose of stifling competition. (*Cole v. Hughes Tool Company*, 215 F. 2d 924, 103 U. S. P. Q. 1; *Ronson Patents Corp. v. Sparklets Devices, Inc.*, 112 Fed. Supp. 676, 98 U. S. P. Q. 387, affd. 202 F. 2d 87, 96 U. S. P. Q. 201; *Dollac Corp. v. Margon Corp.*, 118 U. S. P. Q. 257, 273.)

The right of a patent owner to maintain appropriate suits for infringement without being adjudged guilty of a misuse of the patents is established by the patent laws. In 35 U. S. C. A. 271(d) it is provided:

> "No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: * * * (3) sought to enforce his patent rights against infringement or contributory infringement."

Union argued that filing the instant suit was not a single isolated act but was part of an illegal scheme directed against Union. No evidence supports this argument and it was disposed of long ago by the Supreme Court in the case of *Virtue v. Creamery Package Mfg. Co.*, 227 U. S. 8, 57 L. Ed. 393. The *Virtue v. Creamery* case was a treble damage action brought under the antitrust laws. Defendant had previously brought two concerted patent suits against plaintiffs and the same argument was presented. The Supreme Court said:

> "The contention is that the bringing of those suits was not a single and isolated act, but was a part of the more comprehensive plan and scheme to secure

> a monopoly in the United States of the business of making and selling creamery supplies, * * *. Patents would be of little value if infringers of them could not be notified of the consequences of infringement, or proceeded against in the courts. Such action, considered by itself, cannot be said to be illegal. Patent rights, it is true, may be asserted in malicious prosecutions, as other rights, or asserted rights, may be. But this is not an action for malicious prosecution. It is an action under the Sherman antitrust act for the violation of the provisions of that act, seeking treble damages. * * * The testimony shows that no wrong whatever was committed by the Owatonna Company, and the fact that it failed in its suit against plaintiffs does not convict it of any." (227 U. S. 38, 57 L. Ed. 406.)

There are no cases including the *Kobe* case which support the proposition put forward by Union. The activities for which the court penalized Kobe were the related activities of Kobe which used the fact that a patent infringement suit had been filed against Dempsey to bring Dempsey's business to a standstill. Dempsey could not sell its pumps because Kobe circularized the trade and frightened it away from Dempsey. In other words, it was the use of the fact that a lawsuit had been filed that damaged Dempsey, not the lawsuit itself. In this case, there was no circularizing of the trade or similar activities calculated to deprive Union of business.

Thus Union's complaint against Talon boils down to a mere assertion that the filing of the instant lawsuit is the act of Talon which injured it, giving rise to its claim for damages. There is no case in the books, including the *Kobe* case, which would sanction recovery by Union under these circumstances. As pointed out above, the

Kobe case did not rest on the mere institution and prosecution of the patent infringement case. In fact, the Court in discussing this point stated at 198 F. 2d, page 425:

> "We have no doubt that if there was nothing more than the bringing of the infringement action, resulting damages could not be recovered, but that is not the case."

To rule otherwise would be to effectively close the courts to patent owners and face every unsuccessful plaintiff in a patent infringement case with a possibility of incurring trebled damages. Such access to the courts is protected by law.

> *Virtue v. Creamery Package Co.* (1912), 227 U. S. 8, 57 L. Ed. 393;
>
> *International Visible Systems Corp. v. Remington-Rand, Inc.* (C. A. 6, 1933), 65 F. 2d 540;
>
> *Straus v. Victor Talking Machine Co.* (C. A. 2, 1924), 297 Fed. 791.

Union's brief is nothing more or less than a rehash of portions of its argument before the trial court coupled with the second thoughts of its newly-appointed counsel on appeal. Union has not pointed to a single act of Talon which could in any way have affected its business or property other than the filing of this lawsuit. Union's history is simply that of an unsuccessful business and nothing by way of evidence in the record or in its offer of proof or otherwise shows Union's lack of success to have been caused by Talon's activities. This is simply another instance of a successful defendant in a patent infringement suit whose counterclaim under the antitrust laws failed for failure to prove damages. (*Hunter Douglas Corp. v. Lando Products,* 235 F. 2d 631.)

Further Answer to Union's Brief.

After Union had been given every opportunity to show the fact of damage and failed, the court properly rejected the evidence as to the losses of Union because this evidence was directed to the amount or extent of damage. Obviously if the fact of damage could not be proved, there was no point in going into the amount of damage.

This procedure was specifically approved by this court in the *Flintkote v. Lysfjord* case, *supra*, in which it said that the fact of injury must first be shown before the jury is allowed to estimate the amount of damage. (246 F. 2d 392.) Since Union had not shown the fact of injury, its evidence as to the amount of damage was properly excluded.

The District Court did not reject Union's evidence regarding the fact of damage. The only evidence rejected was that relating to the amount of damage. There is no substance to parts 2 and 3, pages 20-22, of Union's argument because they are based on the assumption that evidence to the fact of damage was excluded, which is not true, and confuse the degree of proof as to the fact of damage with the degree of proof as to the amount of damage.

The only other point in Union's brief requiring answer is item b, page 19, in which Union states that Talon sold its zipper at less than cost. There is absolutely no support for this proposition. The price of Talon's "Wilzip" zipper was admittedly under its first line zippers, but it was not less than cost as Talon could establish had it been in issue. There was no allegation that Wilzip was sold at less than cost and no evidence was introduced tending to support such a statement. Once the fact that Wilzip zippers were never sold at less than cost is accepted, as it must be, the remainder of Union's argument collapses. There is nothing wrong with respect to Talon's introduction of the Wilzip zipper. Of equal importance, it had no effect on the West Coast and could not have damaged Union. Union's president, Lipson, so testified [R. 917].

Talon met competitive prices but did not undersell anyone. Its zipper prices historically have been above competitive prices because of the quality of its product.

Conclusion.

The only question on appeal is whether the trial court committed an error when, after assessing the evidence introduced by Union, it decided that there was no causal connection between Talon's actions and damage to Union and dismissed the counterclaim. The decision of the District Court is correct and should be affirmed for the reasons given herein.

Respectfully submitted,

Lyon & Lyon,

Leonard S. Lyon,

Charles G. Lyon,

McCoy, Greene & TeGrotenhuis,

William C. McCoy,

William C. McCoy, Jr.,

Attorneys for Plaintiff-Cross-Appellee.